

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
BUREAU OF STATE AND AUTHORITY FINANCE



Michigan Finance Authority

Annual Report 2011

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Michigan Finance Authority

Annual Report 2011

Purpose

The Michigan Finance Authority (MFA) was established to further improve efficiency in state government by consolidating the following 10 public finance authorities:

- Municipal Bond Authority
- State Hospital Finance Authority
- Higher Education Facilities Authority
- Higher Education Assistance Authority
- Higher Education Student Loan Authority
- Public Educational Facilities Authority
- Tobacco Settlement Finance Authority
- Underground Storage Tank Financial Assurance Authority
- State Higher Education Facilities Commission
- Forest Finance Authority

Also transferred to MFA was the authority of the Michigan Strategic Fund to finance the facilities of public and private schools and the authority of the State Land Bank Fast Track Authority to issue bonds and notes.¹

Mission

MFA provides effective, low-cost options to finance the acquisition, construction, improvement, or alteration of land, facilities, equipment, parking, the payment of project costs, or to refinance existing debt.

Customers include, but are not limited to:

- Municipalities: cities, villages, townships, counties, commissions and authorities, and special purpose units
- Public, private, and charter schools
- Healthcare providers
- Private colleges and universities
- College Students

¹ Executive Order No. 2010-2, Mich. Comp. Laws § 12.194.

Board Structure

The Michigan Finance Authority Board of Directors is comprised of seven members, consisting of the State Treasurer as chairperson and six appointees of the Governor with the advice and consent of the State Senate. All appointees must be residents of this state; five appointees each with experience in one of the following areas: housing and community development, education, economic development, natural resources and the environment, and health care. The powers, duties, and functions of MFA are vested in the Board. Except for initial appointments, all are appointed for a four-year term. The present membership of the Board is as follows:

Chairperson: Andy Dillon, State Treasurer

Stephen N. Cassin

MaryLee Davis

Charlotte P. Edwards

Donald H. Gilmer

JulieAnn Karkosak

David S. Mittleman

State Treasurer Representative: Thomas F. Saxton

Executive Director: Joseph L. Fielek

Financial & Administrative Support Services

The Bureau of State and Authority Finance provides financial and administrative support services for MFA, which includes:

- Providing analysis and advice to borrowers evaluating financing alternatives and credit enhancements.
- Confirming bond-pricing levels are appropriate.
- Expediting the financing process.
- Verifying that costs of issuance are appropriate.
- Providing the ability to issue tax-exempt bonds for multiple locations throughout the state of Michigan when needed.
- Assisting with the determination of borrower and the project eligibility.
- Working with underwriters, financial advisors, and bond counsel to complete bond transactions in a cost-effective manner.
- Administering outstanding federal and state loan portfolios in compliance with laws, rules, and regulations to protect the portfolios' financial interest. Processing default claims, and/or collecting default payments for loans guaranteed by the Michigan Guaranty Agency, providing default prevention assistance to borrowers, and conducting financial literacy training for Michigan students.

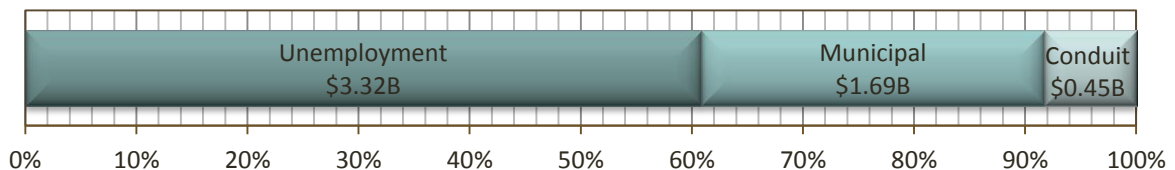


Bonds and Notes Summary

In 2011, the Michigan Finance Authority issued 39 bonds and notes with a total par amount of \$5.46 billion to support the following programs:

Michigan Finance Authority Programs		Issued
State Aid Note	\$	1,176,085,000
State Revolving Fund		301,140,400
Local Government Loan Program		81,975,939
Public School Academy State Aid Note		63,295,000
Long-Term Public School Academy		48,990,000
Tax Anticipation Note		15,000,000
Municipal Finance Programs		\$ 1,686,486,339
Healthcare	\$	377,310,000
Higher Education		56,420,000
Private K-12		17,270,000
Conduit Finance Programs		\$ 451,000,000
Unemployment Obligation Financing	\$	3,323,000,000
Other Finance Programs		\$ 3,323,000,000

Percent of Total Financing



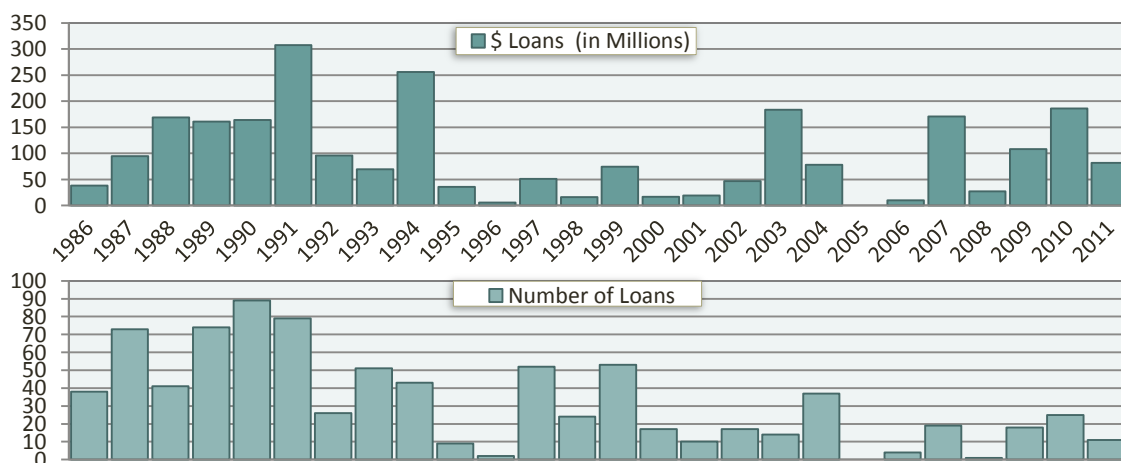
Municipal Finance Programs

In 2011, MFA issued municipal bonds and notes² with a total par amount of \$1.69 billion.

Local Government Loan Program (LGLP) provides competitive interest rates for loans to public entities. Typically, tax-exempt bonds or installment purchase contracts are issued although taxable and private activity bonds have been issued. In 2011, MFA issued \$82 million through the Local Government Loan Program.

Local Government Loan Program Bonds		Issued
Local Government Loan Program, 2011A	\$	31,565,000
Local Government Loan Program, 2011B		8,000,000
Local Government Loan Program, 2011C		7,710,000
Local Government Loan Program, 2011D		8,975,000
Local Government Loan Program, 2011E		1,775,000
Local Government Loan Program, IPA (Wayne County)		8,990,939
Local Government Loan Program, 2011F		14,960,000
Total LGLP		\$ 81,975,939

Local Government Loan Program Loan History



² Shared Credit Rating Act, Public Act 227 of 1985.

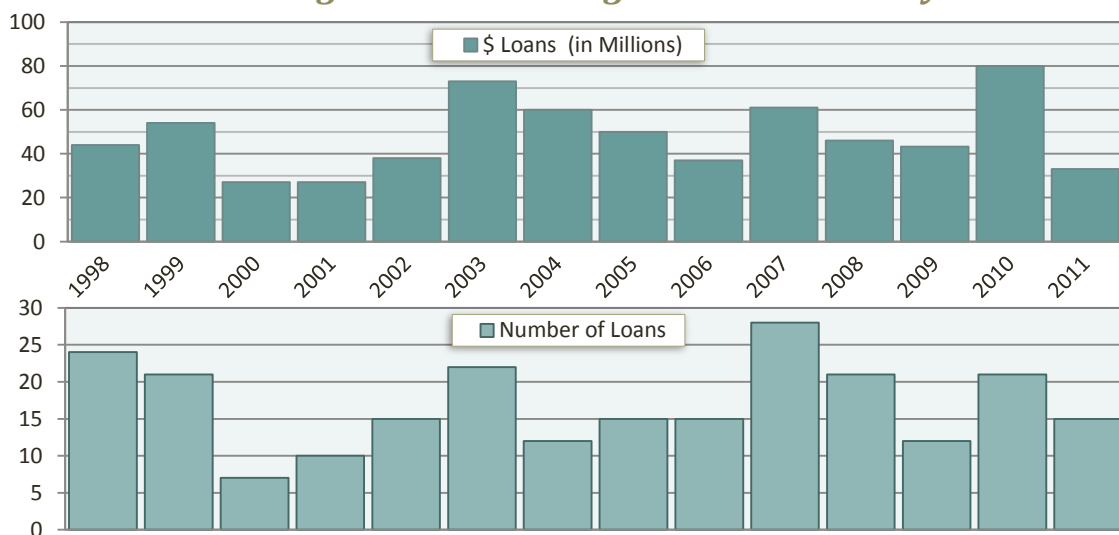
State Revolving Funds (SRF) are jointly administered with the Michigan Department of Environmental Quality (DEQ) which determines qualified projects and annual funding priority.³

State Revolving Funds Bonds		Issued
SRF Clean Water Revolving Fund Revenue Refunding	\$	225,860,000
SRF Clean Water State Match Bonds		12,698,800
SRF Drinking Water Revolving Fund Revenue Refunding		56,860,000
SRF Drinking Water State Match Bonds		5,721,600
Total SRF		\$ 301,140,400



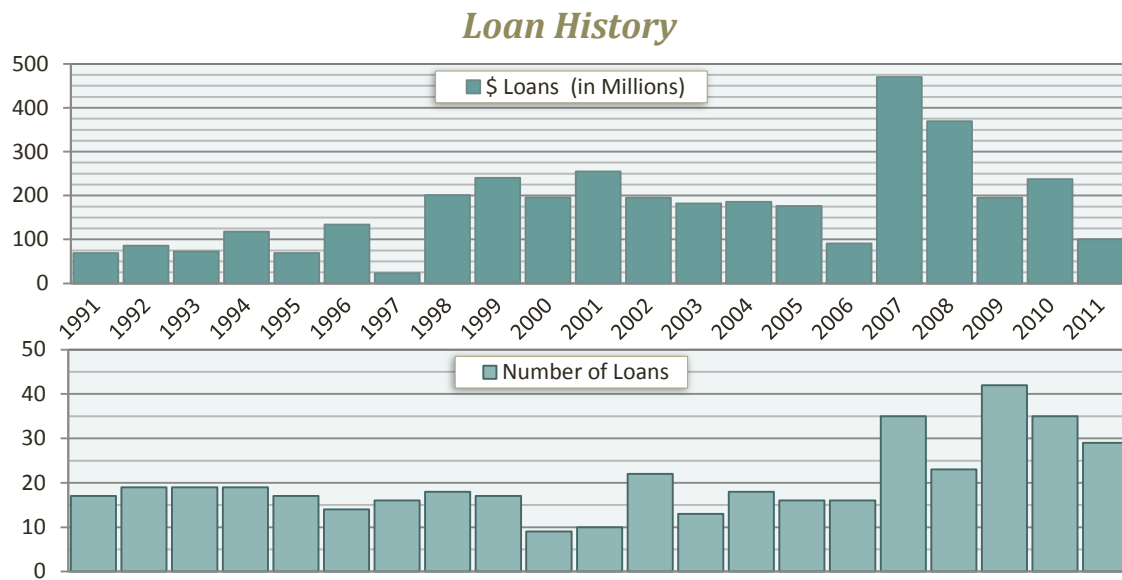
Drinking Water Revolving Fund (DWRF) provides low-cost financing for drinking water projects.

Drinking Water Revolving Fund Loan History



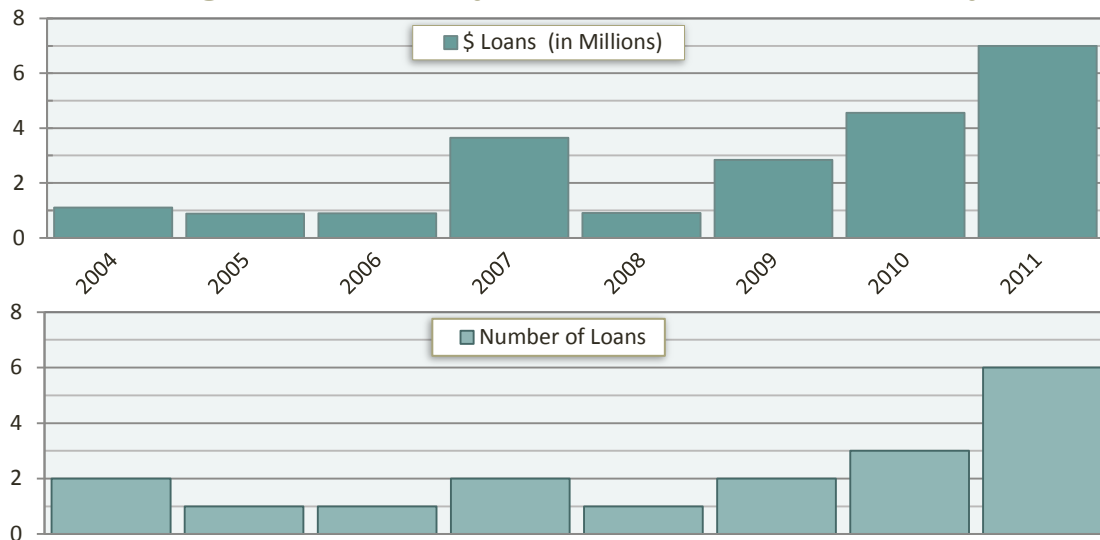
³ Natural Resources and Environmental Protection, Public Act 451 of 1994.

Clean Water Revolving Fund (CWRP) provides low-cost financing for municipal wastewater facilities.



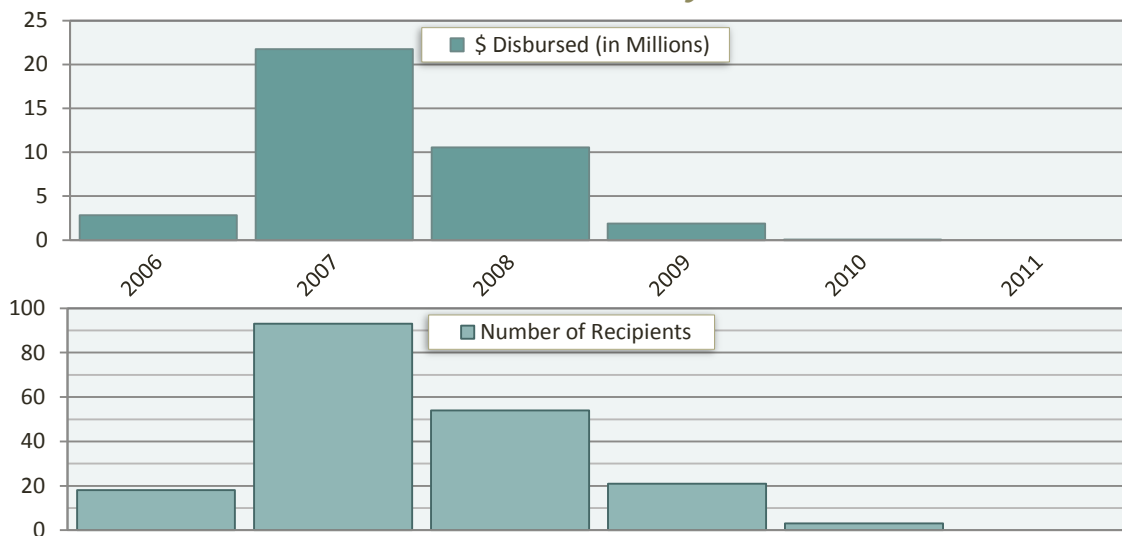
Strategic Water Quality Initiatives Fund (SWQIF) provides financing for the removal of ground water or storm water from sewer leads that cannot qualify for CWRP assistance.

Strategic Water Quality Initiatives Fund Loan History



*Strategic Water Quality Initiatives Grant Program (S2) provides grants to fund the eligible planning and design costs necessary for the completion of a CWRP application.*⁴

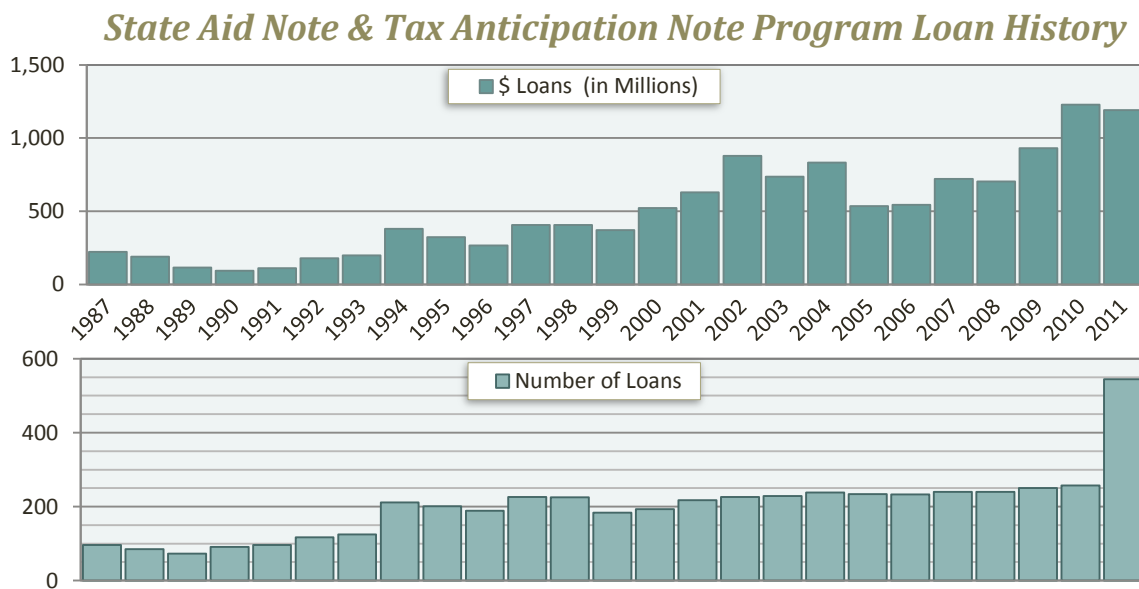
S2 Grant History



⁴ The Department of Environmental Quality awarded \$40 million in grants to 125 communities in 2006, which MFA disbursed through 2010. In 2011, the Department of Environmental Quality awarded \$23 million in grants, which will be disbursed by MFA beginning in 2012.

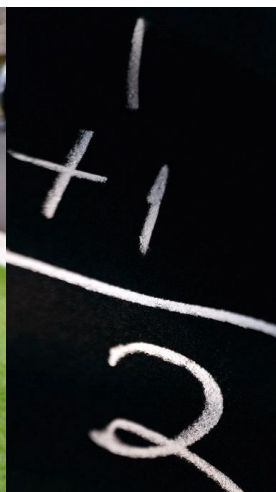
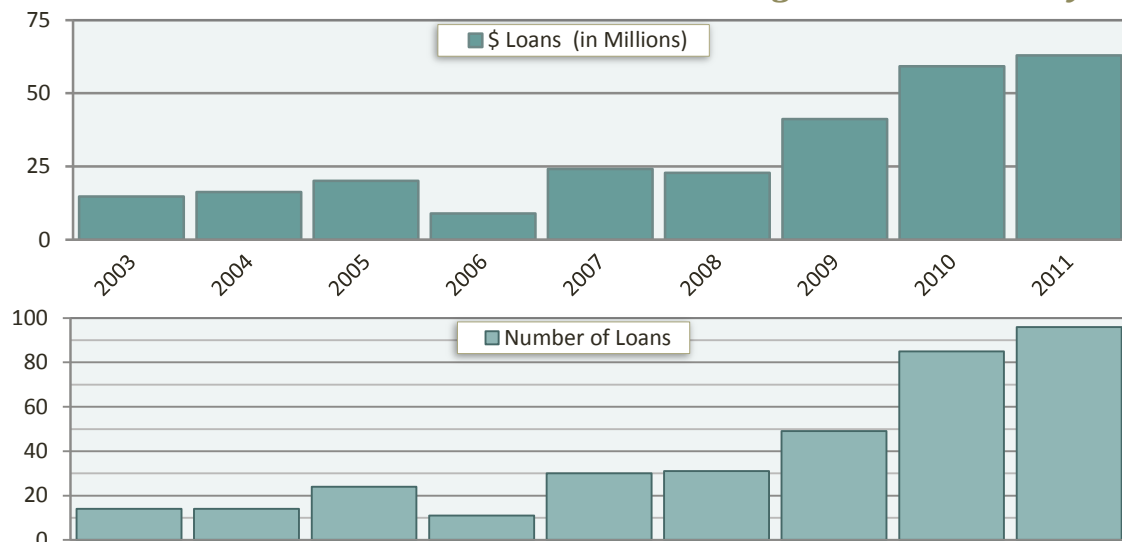
Revenue Note Programs are pooled loan programs to finance the operational cash flow needs of municipalities, including traditional public school districts and charter schools. The Tax Anticipation Note Program (TAN) finances short-term operational cash flow needs utilizing a pledge of local operating tax revenue. The Public School Academies State Aid Note Program (PSA SAN) and the State Aid Note Program (SAN) both utilize a pledge of State School Aid payments. MFA facilitates the financing process by pooling the loans, soliciting bids for professional services, and obtaining the highest possible short-term rating, resulting in competitive interest rates and typically lower costs.

State Aid & Tax Anticipation Notes		Issued
Detroit Public Schools SAN, Series 2011 A-1	\$	120,000,000
Detroit Public Schools SAN, Series 2011 A-2		111,000,000
State Aid Revenue Notes, 2011B		12,840,000
State Aid Revenue Notes, 2011C		694,145,000
DPS Revenue Bonds, 2011		238,100,000
Pontiac TAN, 2011A		7,500,000
Pontiac TAN, 2011B		7,500,000
Total SAN/TAN		\$ 1,191,085,000



Public School Academies State Aid Notes		Issued
State Aid Revenue Notes, Series 2011A-1	\$	8,165,000
State Aid Revenue Notes, Series 2011A-2		7,305,000
State Aid Revenue Notes, Series 2011B-1		36,430,000
State Aid Revenue Notes, Series 2011B-2		11,395,000
Total PSA SAN		\$ 63,295,000

Public School Academies State Aid Note Program Loan History



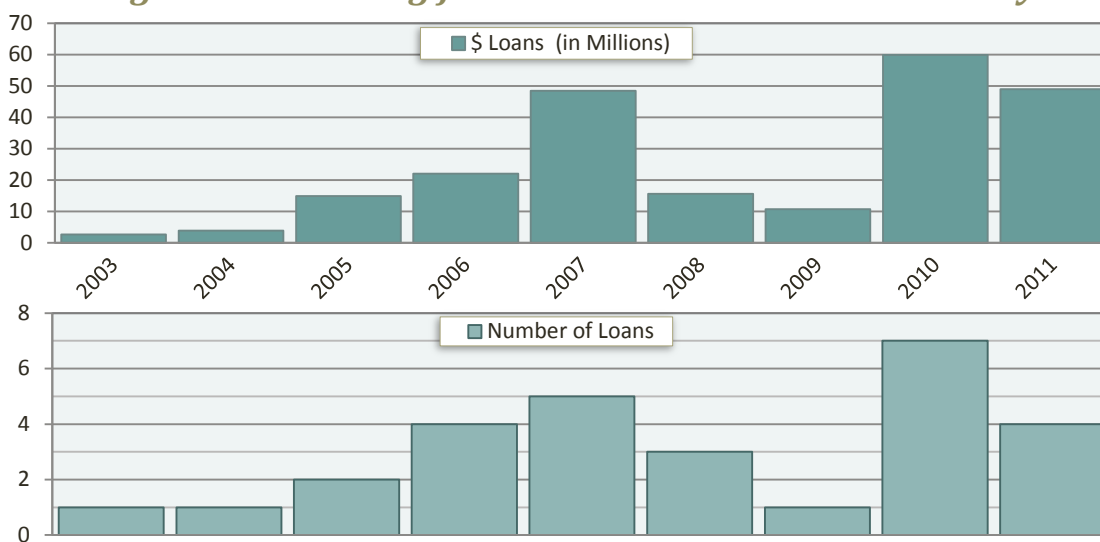


Long-Term Capital Financing for Public School Academies

provides tax-exempt options to finance acquire, construct, improve facilities, land and equipment, or to refinance existing debt.

Public School Academy Program Bonds		Issued
Hope Academy, 2011	\$	8,885,000
Holly Academy, 2011		5,750,000
Voyageur Academy, 2011		17,935,000
Creative Montessori, 2011		4,995,000
Detroit Service Learning Academy, 2011		11,425,000
Total Long-Term PSA		\$ 48,990,000

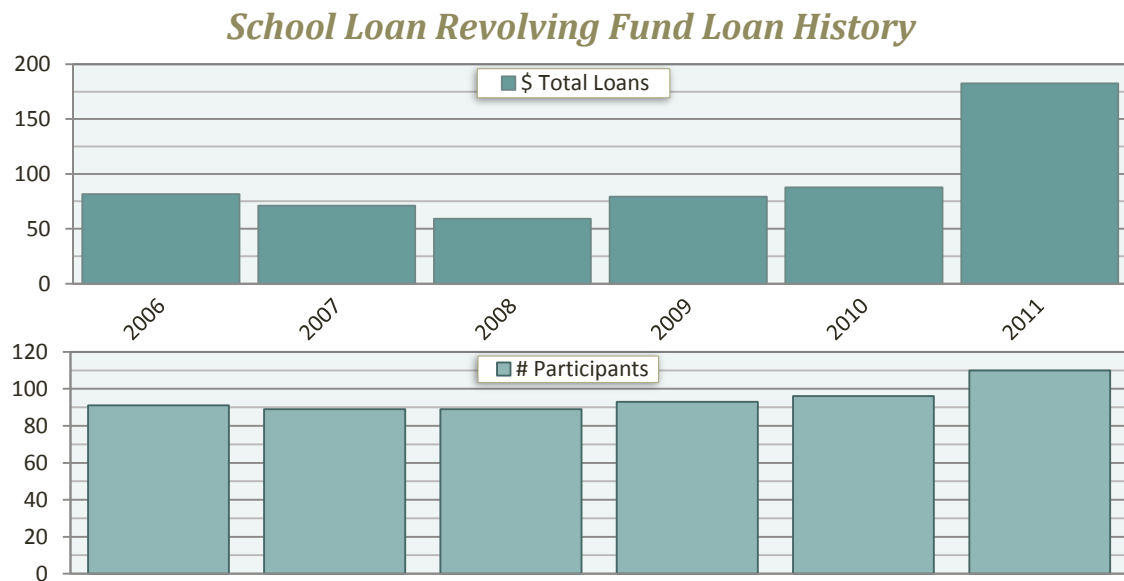
Long-Term Financing for Public School Academies History



School Loan Revolving Fund (SLRF) is a fund that makes loans to school districts to assist school districts with making debt service payments on state qualified bonds issued under the School Bond Qualification and Loan Program. Loan repayment is deferred until the required debt millage yields enough to pay the district's debt service obligations. Any money repaid by school districts on loans made from the SLRF is deposited back into the fund for future use, either to repay debt or make new loans.⁵

In 2011, 78% of Michigan's 549 local public school districts had outstanding qualified bond debt; 22% participated in the loan program. In order to finance the required loans, the State issued \$180.1 million General Obligation bonds in 2011 and placed the funds in the SLRF.

School Loan Revolving Fund Loans		Issued
May Debt Service Loans	\$	156,441,742
November Debt Service Loans		25,946,557
Total SLRF		\$ 182,388,299

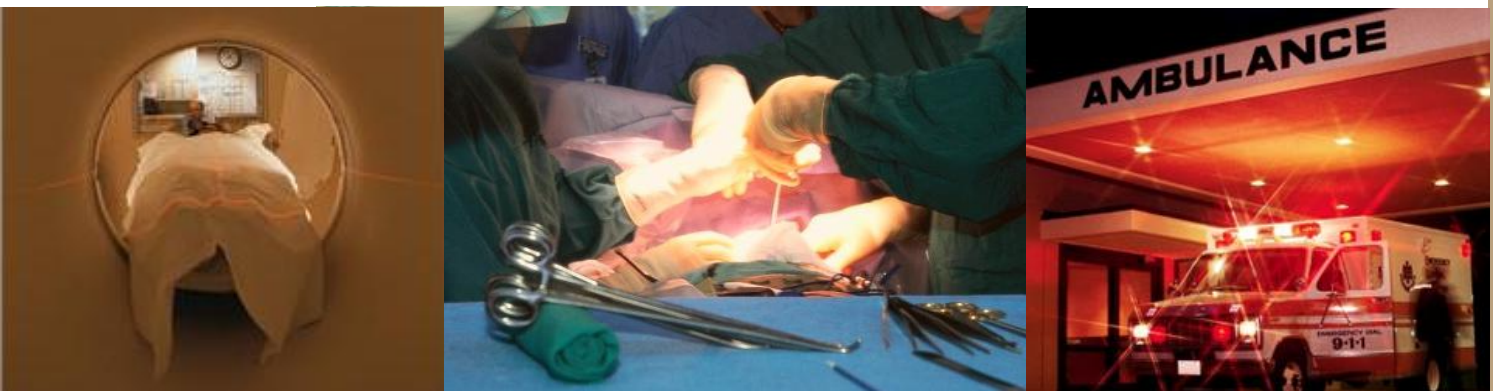


⁵ School Bond Qualification, Approval, and Loan Act, Public Act 92 of 2005.

Conduit Finance Programs

As a conduit issuer, MFA provides essential service providers with access to the capital markets at competitive tax-exempt rates to finance the acquisition, construction, improvement, or alteration of land, facilities, equipment, parking, the payment of project costs, or to refinance existing debt.

Bonds are issued through MFA and the proceeds loaned to service providers for defined qualified purposes. The private/non-profit entity assumes all liability for the debt and its repayment.



Healthcare Finance Programs assists eligible healthcare providers with obtaining financing and refinancing for capital improvements, and issues facility equipment loans through the Healthcare Equipment Loan Program (HELP).⁶

Healthcare Finance Bonds		Issued
HELP C Installment #27	\$	5,000,000
Port Huron Hospital, 2011A		23,815,000
HELP D Installment #1		15,195,000
HELP C Installment #28		5,750,000
HELP D Installment #2		2,355,000
Trinity Health Credit Group, Series 2011MI		325,195,000
Total Healthcare Finance		\$ 377,310,000

⁶ Hospital Finance Authority, Public Act 38 of 1969.



Higher Education Finance Program assists non-profit educational institutions with obtaining financing for capital improvements.⁷

Higher Education Finance Bonds		Issued
Kalamazoo College, Series 2011A	\$	34,250,000
Kalamazoo College, Series 2011B		2,170,000
University of Detroit Mercy, Series 2011		16,000,000
Adrian College, Series 2011		4,000,000
Total Higher Education Finance	\$	56,420,000



Private K-12 School Finance Program provides private/non-profit primary and secondary schools with access to effective, low-cost capital financing.⁸

Private K-12 School Finance Bonds		Issued
Regina High School, 2011	\$	9,110,000
Father Gabriel Richard High School, 2011		8,160,000
Total Private K-12 School Finance	\$	17,270,000

⁷ Higher Education Facilities Authority, Public Act 295 of 1969.

State Higher Education Facilities Commission, Public Act 941 of 1964.

⁸ Michigan Strategic Fund Act, Public Act 270 of 1984.

Other Finance Programs

Higher Education Student Loan Programs MFA is the successor, per Executive Order 2010-2, to both the Michigan Higher Education Student Loan Authority (MHESLA)⁹ and the Michigan Higher Education Assistance Authority (MHEAA)¹⁰ and as such administers outstanding portfolios of loans made to students and parents for postsecondary education under federal and state education loan programs. MFA monitors contracted loan servicers for compliance with federal laws, rules, and regulations governing loans, and is responsible for required federal reporting and budgeting activities.

MFA, as the successor to MHESLA, was a lender in the Federal Family



Education Loan Program (FFELP) offering Subsidized Stafford Loans, Unsubsidized Stafford Loans, PLUS Loans, and Consolidation Loans. Between 1976 and 2010¹¹, MFA originated \$1.3 billion in FFELP loans; purchasing another \$3.4 billion in FFELP loans since 1990. Beginning July 1, 2010, no new loans were issued under FFELP. As of the end of 2011, MFA administered \$1.3 billion in outstanding FFELP loans financed with proceeds from tax-exempt bonds and a loan from Straight A. Funding, LLC.

⁹ Higher Education Loan Authority, Public Act 222 of 1975.

¹⁰ Michigan Higher Education Assistance Authority, Public Act 77 of 1960.

¹¹ Health Care and Education Reconciliation Act. U.S. Pub. L. 111-152, 124 Stat. 1029. 30 March 2010.

Michigan Guaranty Agency (MGA), as the federally designated guarantor for the state of Michigan, provides guarantees (lender assurance against default) for student and parent loans for Michigan residents and students attending Michigan postsecondary educational institutions. MGA provides outreach services, including financial literacy training and borrower information aimed at postsecondary students. Beginning July 1, 2010, no new loans are guaranteed under FFELP. During its nearly 45-year history, MGA has guaranteed over \$14 billion in loans. As of the end of 2011, MGA had \$3.2 billion in outstanding loans guaranteed.

Michigan Alternative Student Loan (MI-LOAN®) Program was a private student loan program for students attending Michigan degree-granting colleges and universities. This program helped students bridge the gap between college costs and traditional federal financial aid resources. Between 1990 and February 29, 2008, MFA originated \$360 million in MI-LOANS; \$219 remained outstanding at the end of 2011.

Unemployment Obligation Assessment Trust is jointly administered by the Michigan Department of Licensing and Regulatory Affairs and the Michigan Department of Treasury. Financing was provided through MFA to allow the State to repay Federal Advances to the State's Unemployment Trust Fund, avoid additional advances, pay unemployment benefits, and provide reserves to minimize the impact on unemployment insurance tax rates.¹²

Unemployment Obligation Finance Bonds		Issued
Unemployment Obligation Assessment Variable Rate		
Demand Revenue Bonds, Series 2011		\$ 3,323,000,000
Total Unemployment Obligation Finance		\$ 3,323,000,000

¹²Employment Security Financing Act, Public Act 267 of 2011.
Michigan Employment Security Act, Public Act 1 of 1936.

NEW ISSUE—BOOK-ENTRY ONLY**RATINGS: APPLIED FOR**
See "RATINGS" herein

In the opinion of the Attorney General of the State of Michigan, and in the opinion of Dickinson Wright PLLC, Bond Counsel, subject to compliance with certain covenants, under existing law, (1) the interest on the Bonds is excluded from gross income for federal income tax purposes except as described under "TAX MATTERS" herein, and (2) the Bonds and the interest thereon are exempt from all taxation by the State of Michigan or a political subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

\$3,323,000,000**MICHIGAN FINANCE AUTHORITY
UNEMPLOYMENT OBLIGATION ASSESSMENT VARIABLE RATE DEMAND
REVENUE BONDS, SERIES 2011****Dated: Date of Delivery****Price: 100%****CUSIP: 59447P JL6****Due: July 1, 2014**

The \$3,323,000,000 Michigan Finance Authority Unemployment Obligation Assessment Variable Rate Demand Revenue Bonds, Series 2011 (the "Series 2011 Bonds" or the "Bonds") are special revenue obligations of the Michigan Finance Authority (the "Authority") and are issued and secured under the provisions of a Trust Indenture, dated as of December 1, 2011 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee thereunder (the "Trustee"), as described herein. The Bonds shall bear interest at the Weekly Interest Rate, as described herein. The Bonds will pay interest semi-annually on each July 1 and January 1, commencing July 1, 2012. The Bonds are to be issued in accordance with a resolution adopted by the Authority on December 22, 2011 and the authorization provided in Act 267, Public Acts of Michigan, 2011 (the "Act"). The proceeds of the sale of the Bonds together with investment earnings on such proceeds and other available moneys will be used to (i) repay approximately \$3.2 billion of principal and accrued interest on unpaid advances from the Federal government to the State's Unemployment Trust Account within the Federal Unemployment Trust Fund, (ii) reimburse the State of Michigan's general fund for approximately \$22.7 million in interest on such unpaid advances previously paid by the State of Michigan, (iii) fund certain unemployment benefits to avoid additional advances or loans from the Federal government in the near term, and (iv) pay or provide for the payment of financing costs associated with issuance of the Series 2011 Bonds. (See "PLAN OF FINANCING.")

The Bonds are issuable as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as Securities Depository for the Bonds. Purchases of beneficial ownership interests will be made in book-entry only form. Purchasers ("Beneficial Owners") will not receive certificates representing their beneficial interest in the Bonds. So long as Cede & Co., as nominee of DTC, is the Bondholder, references herein to Bondholders or registered owners shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. See APPENDIX H – "BOOK-ENTRY ONLY SYSTEM" attached hereto. The Bonds will be available to purchasers in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.

The Bonds are subject to optional redemption, optional tender for purchase upon providing seven days' irrevocable written notice in the manner described herein and mandatory tender for purchase prior to maturity, as described herein.

The payment of the principal and Tender Price of and interest on the Bonds will be secured by an irrevocable, direct-pay letter of credit (the "Credit Facility") issued by Citibank, N.A. (the "Bank" or the "Credit Facility Provider"), pursuant to which the Trustee will be permitted to draw up to (a) an amount equal to the aggregate principal amount of the Bonds outstanding for the payment of the principal of the Bonds or the principal component of the Tender Price of the Bonds, plus (b) an amount equal to 205 days' interest on the Bonds outstanding at the rates described herein (and for the periods described herein) for the payment of interest on the Bonds or the interest component of the Tender Price of the Bonds, all as further described herein. The Credit Facility will expire on July 1, 2014, unless extended or earlier terminated as described herein.

The Bonds are payable solely out of the Security under the Indenture. The Bonds are not a debt or liability of the State of Michigan, or any agency or instrumentality of the State, other than the Authority as set forth in the Act and the Indenture. The Bonds do not create or constitute an indebtedness, liability or obligation of the State or constitute a pledge of the faith and credit of the State.

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of this issue. Investors are instructed to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and subject to receipt of approving legal opinions of the Attorney General of the State of Michigan and of Dickinson Wright PLLC, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Bank by Kutak Rock LLP and for the Underwriter by Kutak Rock LLP and Dykema Gossett PLLC. It is expected that the Bonds in book-entry form will be available for delivery against payment therefor through the facilities of DTC on or about December 28, 2011.

Citigroup

Date: December 23, 2011



Michigan Finance Authority

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